

**STATE OF UTAH INSURANCE DEPARTMENT
FINANCIAL EXAMINATION REPORT
OF**

**IHC BENEFIT ASSURANCE COMPANY, INC.
OF**

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2002

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Nov 18, 2003

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2002, of the financial condition and business affairs of

IHC BENEFIT ASSURANCE COMPANY, INC.
of
Salt Lake City, Utah

a stock accident and health insurance company, hereinafter referred to as the Company.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was made as of June 30, 1998. The current examination covers the period from July 1, 1998, through December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and statements of statutory accounting principles (SSAPs) prescribed by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2002. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access and

provided copies of requested working papers prepared in connection with its audits. The use of the firm's working papers did not significantly affect the nature and extent of examination procedures performed.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Company has addressed important points and recommendations noted in the prior examination report.

HISTORY

General

In 1975, the Church of Jesus Christ of Latter Day Saints transferred all assets and liabilities of its hospital system to a board of trustees. The trustees in turn created Intermountain Health Care, Inc. a non-profit corporation, to own and operate the hospital system. In 1982, IHC Hospitals Inc. was established as a subsidiary of Intermountain Health Care, Inc. for the purpose of operating the hospital holdings.

Intermountain Health Care, Inc. incorporated IHC Health Plans, Inc. on December 27, 1983, for the purpose of developing and administering financial mechanisms for its network of health care services. On May 8, 1992, IHC Health Plans, Inc. incorporated IHC Benefit Assurance Company, Inc. under the laws of the state of Utah. This incorporation assisted the Company and its affiliated organization in making health care benefits available to communities in the Intermountain region. The Department issued a Certificate of Authority to the Company, on June 30, 1992.

There were no amendments to the articles of incorporation during the period covered by this examination.

The bylaws were amended during the period of this examination to remove the requirement that the Vice-Chairperson and Secretary of the Board of Directors be members of the Executive Committee.

As of December 31, 2002, the Company is authorized to write only accident and health insurance in the state of Utah.

Capital Stock

The Company had authorized capital of 50,000 shares of common stock with a par value of \$375.00 per share. Two thousand shares of common stock were issued and outstanding. IHC Health Plans, Inc. owns 100% of the issued and outstanding common stock of the Company. Intermountain Health Care, Inc. ultimately controls IHC Health Plans, Inc.

Dividends to Stockholders

During the period of the examination the Board of Directors did not declare and the Company did not pay stockholder dividends.

Management

Management of the Company is vested in its board of directors. As of December 31, 2002, there were seventeen directors. The directors, as currently constituted, are as follows:

<u>Name/Residence</u>	<u>Principal Occupation</u>
Richard J. Galbraith, Chairperson Sandy, Utah	Retired. Former President of the Benefit Division Fred S. James Company
N. Patricia Freston, Vice-Chairperson Salt Lake City, Utah	Vice President of Human Resources N P S Pharmaceuticals, Inc.
Everett N. Goodwin, Jr., Secretary Salt Lake City, Utah	Senior Vice President and Chief Financial Officer Intermountain Health Care, Inc.
Teresa Beck Salt Lake City, Utah	Retired. Former President American Stores Company
Daniel E. England Sandy, Utah	Chief Executive Officer C.R. England, Inc.

David H. Jeppson Toquerville, Utah	Retired. Former Executive Vice President Intermountain Health Care, Inc.
Edward G. Kleyn Ogden, Utah	President, Rocky Mountain Region Wells Fargo Bank
Linda C. Leckman, M.D. Salt Lake City, Utah	Vice President and Chief Executive Officer Physician Division Intermountain Health Care, Inc.
Henry L. McDermott South Jordan, Utah	Owner McDermott Company and Associates
Thomas B. Morgan Sandy, Utah	Executive Vice President, Retail Credit Zions First National Bank
William H. Nelson Salt Lake City, Utah	President and Chief Executive Officer Intermountain Health Care, Inc.
Harold D. Norton Provo, Utah	President and Chief Executive Officer Far West Bank
Sidney C. Paulson Salt Lake City, Utah	President and Chief Executive Officer IHC Health Plans, Inc.
Hugh G. Pehrson Kaysville, Utah	Vice President Intermountain Health Care, Inc.
Carl E. Ramnitz Sandy, Utah	Vice President, Human Resources Geneva Steel
Charles W. Sorenson, Jr. M.D. Salt Lake City, Utah	Senior Vice President Intermountain Health Care, Inc.
Stephen D. Taylor M.D. Salt Lake City, Utah	President Wasatch Emergency Medical Group

Senior Officers serving the Company as of December 31, 2002, were:

<u>Officer</u>	<u>Title</u>
Sidney C. Paulson	President
Stephen L. Barlow	Vice President/Chief Medical Officer
Jerry R. Edgington	Vice President
Lisa K. Fallert	Vice President and Secretary
David H. Olson	Vice President
Todd D. Trettin	Vice President/Chief Financial Officer and Treasurer
J. Murphy Winfield	Vice President

Board committee members as of December 31, 2002, were:

<u>Executive Committee</u>	<u>Finance Committee</u>
Richard J. Galbraith, Chairperson	Teresa Beck, Chairperson
Everett N. Goodwin, Jr.	David H. Jeppson
Sidney C. Paulson	Edward G. Kleyn
	Harold D. Norton
	Sidney C. Paulson
	Todd D. Trettin
<u>Audit Committee</u>	<u>Quality Assurance Committee</u>
Teresa Beck, Chairperson	N. Patricia Freston, Chairperson
David H. Jeppson	Stephen L. Barlow, M.D.
Edward G. Kleyn	Henry L. McDermott
Harold D. Norton	Hugh G. Pehrson
	Carl E. Ramnitz

Appeals Committee

Sidney C. Paulson, Chairperson
Patrice Arent
Cherie Brunker, M.D.
Daniel E. England
Morris D. Linton
Thomas B. Morgan
John T. Nielsen
Stephen D. Taylor, M.D.

Conflict of Interest Procedure

During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

Corporate records generated for and during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors and of the sole shareholder. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. The prior examination report as of June 30, 1998, was distributed to the board in June of 2000.

Acquisitions, Mergers, Disposals, Dissolutions and Purchases or Sales through Reinsurance

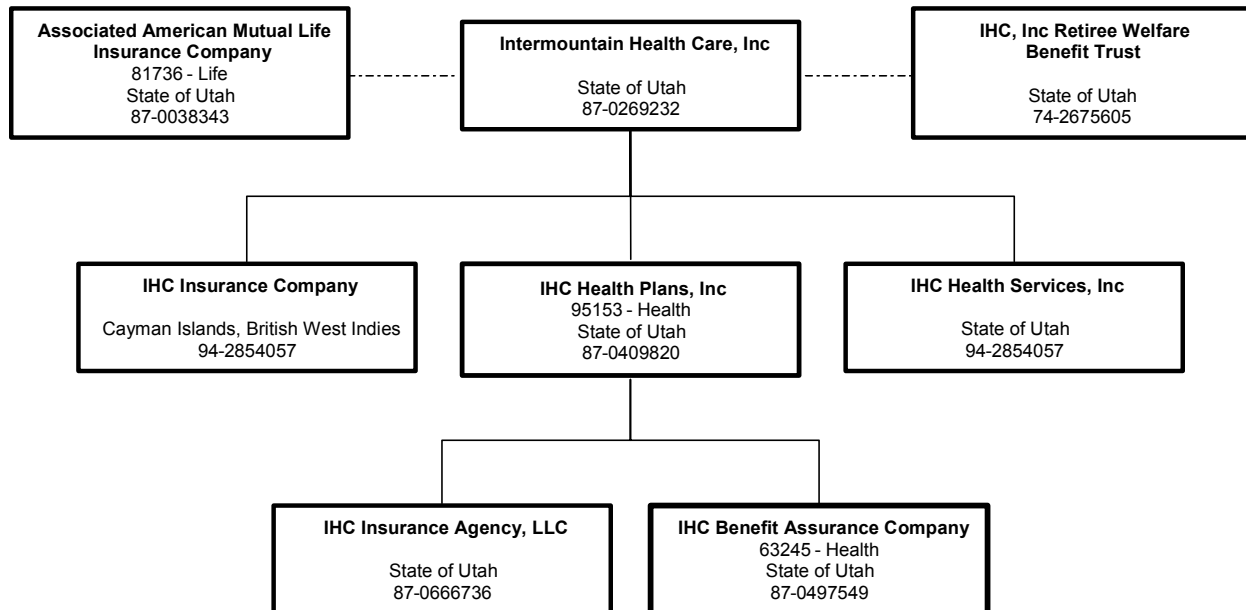
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance noted that involved the company during the examination period.

Surplus Debentures

During 1998, the Company issued, with the approval of the Department a subordinated debenture (surplus note) to IHC Health Plans, Inc. for \$2,500,000. In 2002, with the approval of the Department, the surplus note issued to IHC Health Plans, Inc. was repaid.

AFFILIATED COMPANIES

As of December 31, 2002, the Company was a member of an insurance holding company system as defined under U.C.A. §31A-1-301(66). The direct control relationship that existed between the Company and its ultimate controlling party Intermountain Health Care, Inc. as of December 31, 2002, was as follows:



As of December 31, 2002, the Company maintained an administrative services agreement with IHC Health Plans, Inc. Under the agreement, IHC Health Plans, Inc. performed or arranged for the performance of the following functions and services for the Company: administrative, underwriting, enrollment, claims, accounting, and information services. The Company paid 11% of its earned premiums as compensation for services received, pursuant to the agreement.

FIDELITY BOND AND OTHER INSURANCE

Insurance protection is provided to the Company under an executive protection policy issued to Intermountain Health Care, Inc. with coverage extended to listed subsidiaries including the Company. The crime insurance policy includes coverage for direct losses of money, securities, or other property, caused by employee theft on employer or banking premises including transit or conveyance. Additional coverage is included for direct losses of money, securities, or other property, caused by depositor forgery, computer theft, and funds transfer fraud. Each listed liability is limited to \$5,000,000 in aggregate with a \$100,000 deductible.

This policy provides the coverage typically provided by a fidelity bond and exceeds the NAIC recommended coverage of \$200,000 for a company of this size.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not have any employees, therefore there is no need for a Pension, Stock Ownership, and Insurance Plans.

STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-4-105, the Company was required, as of December 31, 2002, to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement was \$400,000 as determined by U.C.A. §31A-5-211(2)(a). The securities on deposit consisted of bonds with a par value of \$500,000 and a fair value of \$502,345.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company offers insurance to members of IHC Health Plans, Inc., under a blanket or group insurance policy for point-of-service or out-of-panel claims for its health maintenance organization enrollees. The Company also offers stop-loss coverage to self-funded employers. The Company's risk retention was \$1,000,000 for IHC hospital expenses and \$500,000 for non-IHC hospital expenses per covered member per agreement year.

The Company has issued excess loss policies to employers with self-funded health plans, which may expose the company to loss which exceed the single risk limitation as specified by U.C.A. §31A-20-108(2)(a). The Company's exposure to risk varies by policyholder. In some cases, those losses could exceed the single risk limitation by as much as approximately \$490,000.

Territory and Plan of Operation

The Company is licensed to operate as an accident and health insurer only in the state of Utah.

Advertising and Sales Material

The Company had no advertising policy or budget. As of December 31, 2002, the Company marketed its stop-loss product through IHC Health Plans, Inc.

Treatment of Policyholders

The Company did not have any complaints registered against them with the Department during the period of the examination.

REINSURANCE

During the period covered by the examination, the Company did not assume any reinsurance. As of December 31, 2002, the Company maintained a ceding agreement with Munich American Reassurance Company to provide excess loss coverage for inpatient hospital expenses. This reinsurer was authorized to conduct business in the state of Utah. Under provisions contained in the agreement, the Company retains \$1,000,000 for expenses incurred at IHC hospitals and \$500,000 for expenses incurred at all other hospitals per covered member per agreement year.

ACCOUNTS AND RECORDS

As of December 31, 2002, the Company's accounts and records consisted of its general ledger, journals, registers, investment information, and statistical records. Most of the Company's accounting functions and procedures were maintained on electronic data processing systems, owned and operated by its parent IHC Health Plans, Inc.

As of December 31, 2002, an examination trial balance was prepared from the Company's computerized general ledger. Account balances were reconciled to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

FINANCIAL STATEMENT

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2002

Statement of Revenue and Expenses for the Year Ended December 31, 2002

Capital and Surplus for the Years 1998 through 2002

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

IHC BENEFIT ASSURANCE COMPANY, INC.
Balance Sheet as of
December 31, 2002

ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$5,858,965	
Cash and short-term investments	993,007	
Investment income due and accrued	92,190	
Amounts due from parent, subsidiaries and affiliates	713,542	
Federal and foreign income tax recoverable and interest thereon	88,000	
Total assets	<u>\$ 7,745,704</u>	

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$1,699,228	(1)
Unpaid claims adjustment expenses	65,000	
Aggregate policy reserves	893,429	(2)
General expenses due or accrued	29,000	
Total liabilities	<u>2,686,657</u>	
Common capital stock	750,000	
Gross paid in and contributed surplus	1,250,000	
Unassigned funds (surplus)	3,059,047	
Total capital and surplus	<u>5,059,047</u>	
Total liabilities, capital and surplus	<u>\$ 7,745,704</u>	

IHC BENEFIT ASSURANCE COMPANY, INC.
Statement of Revenue and Expenses
for the Year Ended December 31, 2002

Net premium income	\$ 10,672,829
Change in unearned premium reserves and reserve for rate credits	(249,374)
Total revenues	<u>10,423,455</u>
Hospital/medical benefits	5,223,841
Other professional services	2,440,689
Emergency room and out of area	91,417
Aggregate write-ins for other medical and hospital:	
Medical Supplies	<u>271,888</u>
Total medical and hospital	<u>8,027,835</u>
Claims adjustment expenses	293,998
General administrative expenses	<u>1,391,719</u>
Total underwriting deductions	<u>9,713,552</u>
Net underwriting gain or (loss)	<u>709,903</u>
Net investment income earned	423,624
Net realized capital gains or (losses)	31,635
Net income or (loss) before federal income taxes	<u>1,165,162</u>
Federal and foreign income taxes incurred	<u>214,262</u>
Net income (loss)	<u><u>\$ 950,900</u></u>

IHC BENEFIT ASSURANCE COMPANY, INC.
Capital and Surplus
for the Years 1998 through 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Capital and surplus, December 31, previous year	\$ 2,512,488	\$ 5,659,522	\$ 5,107,071	\$ 6,004,062	\$ 6,594,147
Net Income or (loss)	645,946	(9,867)	554,134	267,674	950,900
Net unrealized capital gains and losses					(16,000)
Change in net deferred income tax				(19,000)	30,000
Change in nonadmitted assets	22,479	(535,462)	365,285		
Change in asset valuation reserve	(21,391)	(7,122)	(22,428)		
Change in surplus notes	2,500,000				(2,500,000)
Cumulative effect of changes in accounting principles				341,411	
Net change in capital and surplus for the year	<u>3,147,034</u>	<u>(552,451)</u>	<u>896,991</u>	<u>590,085</u>	<u>(1,535,100)</u>
Capital and surplus, December 31, current year	<u>\$ 5,659,522</u>	<u>\$ 5,107,071</u>	<u>\$ 6,004,062</u>	<u>\$ 6,594,147</u>	<u>\$ 5,059,047</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Claims Unpaid \$1,699,228

The Company reported a liability for claims unpaid of \$2,199,048. The liability disclosed on the Balance Sheet contained in this examination report was \$1,699,228. The Claims Unpaid liability was decreased because the claims payments made subsequent to the examination period, for claims incurred prior to year 2003, were less than the reserve estimate.

(2) Aggregate Policy Reserves \$893,429

The Company reported a liability for aggregate policy reserves of \$836,631. The liability disclosed on the Balance Sheet contained in this examination report was \$893,429. The Aggregate Policy Reserves were increased because the payment made in 2003 for the experience refund was \$56,798 greater than the liability accrued.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$433,022 more than reported in the Company's annual statement as of December 31, 2002. The following schedule identifies the examination changes:

<u>Description</u>	<u>Annual Statement</u>	<u>Per Examination</u>	<u>Increase (Decrease)</u>	<u>Notes</u>
Claims Unpaid	\$ (2,199,048)	\$ (1,699,228)	\$ 499,820	(1)
Aggregate Policy Reserves	(836,631)	(893,429)	<u>(56,798)</u>	(2)
Total changes			443,022	
Capital and surplus per Organization			<u>4,616,025</u>	
Capital and surplus per Examination			<u><u>\$ 5,059,047</u></u>	

U.C.A. §31A-5-211(2)(a), requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. §31A-17 Part 6, the Company reported total adjusted capital of \$4,616,025 and an authorized control level risk-based capital (RBC) requirement of \$866,518 as of December 31, 2002.

The examination determined total adjusted capital to be \$5,059,047. The examination accepted the Company's reported authorized control level RBC because adjustments made for examination purposes would not have an effect on the RBC requirement.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. The Company has issued excess loss policies to employers with self-funded health plans, which may expose the company to loss that exceeds the single risk limitation as specified by U.C.A. §31A-20-108(2)(a). (INSURANCE PRODUCTS AND RELATED PRACTICES-Policy Forms and Underwriting)
2. U.C.A. §31A-5-211(2)(a), requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. §31A-17 Part 6, the Company reported total adjusted capital of \$4,616,025 and an authorized control level risk-based capital (RBC) requirement of \$866,518 as of December 31, 2002. The examination determined total adjusted capital to be \$5,059,047 and accepted the Company's reported authorized control level RBC. (CAPITAL AND SURPLUS)

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged.

Respectfully submitted,

Donald R. Catmull, AFE
Examiner in Charge, representing the
Utah Insurance Department